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TUCSON AMA SAFE-YIELD TASK FORCE
ISSUE OUTLINE
7/3/00

ISSUE: FINANCING WATER INFRASTUCTURE

In the Tucson AMA, infrastructure for use of renewable supplies is not in place to meet the potential demand. Obtaining financing for new infrastructure is a major impediment to more complete use of renewable supplies. Projects that would involve multiple jurisdictions and/or private parties are particularly difficult to finance. However, if financing issues can be resolved, several projects with long-term water management benefits to the Tucson AMA could proceed.

BACKGROUND

The Tucson AMA has a number of clearly identified infrastructure needs associated with renewable supplies. There is particular interest in delivering CAP water to the Cañada del Oro (CDO) and Sahuarita-Green Valley. ADWR, the United States Geological Survey, the Bureau of Reclamation and the local water providers have all committed resources to feasibility analyses and other studies. Delivering CAP water to these areas for recharge and/or direct delivery could have considerable benefit to the regional aquifer. There has also been consideration of building additional smaller systems for delivery of renewable supplies to agriculture and mining

Unfortunately, water infrastructure is often very expensive to build, operate and maintain, and the associated financing issues are complex. The expense and financing complexity combine to create a significant obstacle to project implementation. Furthermore, issues such as timing, political acceptability and level of public support also influence financing decisions.

Discussions of infrastructure financing often focus on obtaining funds to build a particular project. However, the repayment issues are often more important. The repayment mechanism (water rates or property taxes) and geographic extent (areas that will benefit from the project) often determine funding options, so they must be addressed early. In many cases, if the issues of repayment can be resolved, locating funding sources is comparatively straightforward.

With rare exceptions, “free money” in the form of grants is unavailable, and “pay-as-you-go” may end up costing more and taking longer than up-front financing. Therefore most infrastructure is paid for by incurring debt in the form of bonds. Bonds represent pledges of either future property taxes (for general obligation bonds) or future revenues (revenue bonds). Municipal entities (including most special districts) can issue their own bonds. However, for water projects, it may be advantageous for the Arizona Water Infrastructure Finance Authority (WIFA) to act as an intermediary. WIFA can subsidize the interest rate of certain projects by using federal Safe Drinking Water or Clean Water Act revolving funds, and they can provide technical assistance.

For many public infrastructure projects, the area of benefit (and thus repayment) is established with the creation of a special district. Title 48 of the Arizona Revised Statutes provides for numerous types of districts. For projects that fall completely within an existing municipality there are several options, including the versatile Community Facilities District. Over time other special districts with the potential to participate in the development of water infrastructure have been authorized. These include the Active Management Area Water District (i.e. SCVWD), Groundwater Replenishment District (i.e. Phoenix GRD, *not* CAGRD), County Water Augmentation Authority (Pinal AMA), and the Multi-County Water Conservation District (i.e. CAWCD/CAGRD).

Title 48 does not provide for a special district for water infrastructure that would span multiple jurisdictions and meet all the other project requirements. One possible exception is a Domestic Water Improvement District (DWID), but for the CDO there is a legal question as to whether a newly created DWID could encompass the existing DWID (i.e. Metro Water). Furthermore, even if a DWID-in-DWID is legal, there is an emerging consensus that creation of a new type multi-jurisdictional special district (perhaps modeled after the community facilities district) would be beneficial for financing projects in the Tucson AMA and elsewhere.

Creation of a special district usually requires approval of those within the proposed boundaries. Factors affecting the likelihood of approval include the type of governing board (elected or appointed); the threshold for approval (majority of people or majority of land value); and the method and formula used to calculate repayment obligations. Repayment also raises issues of equity. For instance, repayment through water rates establishes some equity among current users (the more you use the more you pay), but future users gain benefit from a healthier aquifer without having to pay for it. Property tax assessments provide some equity based on ability to pay, but some taxpayers would be subsidizing others.

A multi-way intergovernmental agreement (IGA) is a potential financing mechanism that would not require the creation of a multi-jurisdictional district. In the case of the CDO, each of the municipal partners (Marana, Oro Valley and Metro Water) could create a special assessment district within their boundaries. Bonds would be posted on behalf of all of the entities, and the repayment of the debt would be specified in the terms of the IGAs. While such an arrangement is possible, it is inherently complex, available bonding capacity may be low and interest rates might be high. Furthermore, a multi-way IGA would not be applicable to the Green Valley projects because private interests would be involved.

There are many other examples of “creative financing” for infrastructure, including creation of a non-profit organization, elaborate lease-payback arrangements with private investors, “bridge financing” to meet large future demand, and municipalities issuing bonds on behalf of others. Ultimately however, the issue of repayment is critical. If you can identify a sufficient stream of money for repayment, and the institutional issues can be resolved, there is usually a way to raise the required capital.

SOLUTIONS CONSIDERED

The following solutions have been considered. Additional ideas may be added to this list.

- Create a new type of special district for multiple jurisdictions, modeled after the Community Facilities District.
- Modify the statute of an existing special district to accommodate project needs.
- Enter into a multi-party IGA (for CDO project).
- Create a new Domestic Water Improvement District that incorporates existing jurisdictions.

PRELIMINARY RECOMMENDATIONS

- Write enabling legislation for a new type of special district that would span multiple existing jurisdictions, including multiple counties. The statutory provisions should be flexible enough to accommodate a number of project types and circumstances. The legislation could be modeled after the Community Facilities District (A.R.S. § 48-701) which authorizes both general obligation and revenue bonding capacity, and has explicit ability to receive assistance from the Arizona Water Infrastructure Finance Authority (WIFA).

OBSERVATIONS

The continued availability of inexpensive groundwater affects the relative feasibility of many projects. The required rise in property taxes or water rates to repay debt could be too high to be politically acceptable. The incentives to use renewable supplies, and the long-term benefits that would accrue, may not be sufficient to overcome the costs of some infrastructure projects.

The timing and feasibility of a number of projects may be affected by proposed water quality standards. The proposed standard for arsenic, for instance, may make the use of CAP water (which is low in arsenic) more cost-effective than treatment at individual groundwater wells (some of which significantly exceed the proposed standard).